

THE KROGER CO. ANNUAL REPORT / 1962

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1962 ANNUAL REPORT

THE KROGER CO.
1014 VINE STREET
CINCINNATI 1, OHIO

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Highlights

	1962	1961	Change
SALES	\$1,947,570,909	\$1,842,342,667	+6%
NET INCOME	\$ 20,424,055	\$ 16,952,685	+20%
NET INCOME PER SHARE	\$1.62	\$1.34	+20%
DIVIDENDS PER SHARE	\$1.10	\$1.10	—
NET WORTH	\$ 194,303,798	\$ 188,884,685	+3%
NET WORTH PER SHARE	\$15.39	\$14.96	+3%
CAPITAL EXPENDITURES	\$ 36,150,675	\$ 32,655,333	+11%
DEPRECIATION AND AMORTIZATION	\$ 18,932,118	\$ 18,991,628	—

To Our Shareowners:

Sales reached an all-time high in 1962 and earnings increased 20% over 1961.

Improved Earnings

Net income was \$20,424,055, equal to \$1.62 per share on the 12,625,178 shares outstanding at the year end. In 1961 the company earned \$1.34 per share. Earnings are after a Lifo charge of 11½¢ per share in 1962 and 5¢ per share in 1961.

Dividends of \$1.10 per share were paid in 1962. This was the 61st consecutive year in which Kroger paid dividends out of current earnings. The regular quarterly dividend of 27½¢ per share payable on March 1, 1963 has been declared. During the year the number of Kroger shareowners increased by 3,568 to 39,936.

Record Sales

Sales reached an all-time high of \$1,947,570,909, an improvement of 6% over 1961. Food prices generally were stable throughout the year. Average sales per food store were \$1,433,091, an increase of \$83,389 over 1961.

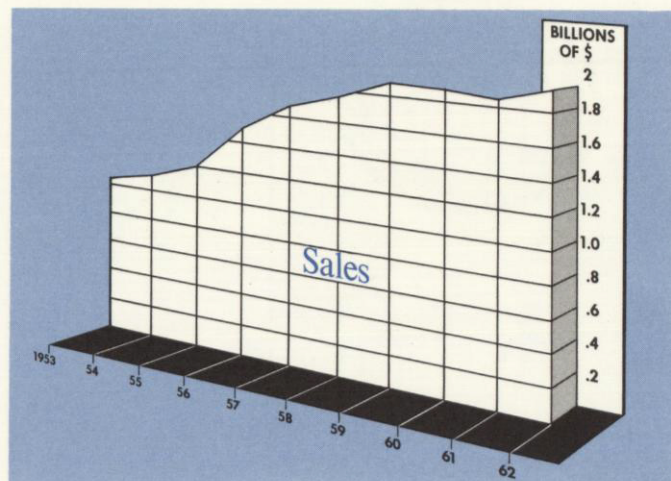
Merchandising for Maximum Sales

The merchandising program inaugurated in the middle of 1961 has proven to be sound. The lower price structure and aggressive promotional effort have enabled the company to regain sales position. The effective cost reduction program has produced improved profits. Further economies are in process.

Testing of various retail approaches continues. Discount food stores have been established. An experimental discount store handling food, drugs and general merchandise has been opened in Orange, Texas. Drug units continue to be constructed adjacent to Kroger stores as well as at separate locations. Merchandising trends are being studied constantly. Policy and program changes are continually updated to remain aggressive.

More Food Stores

For the first time since 1929 Kroger opened more food stores during the year than it closed. There has been a continuous process of consolidating smaller stores into larger, more efficient units. This program has been largely completed. During this 33-year period the number of stores declined by 4,211 while the average annual sales per store increased from \$52,168 to \$1,433,091.



Ninety new food stores were opened during 1962 and 53 were remodeled. Eighty older stores were closed. At the year end Kroger operated 1,364 food stores, ten more than one year earlier. The average store opened in 1962 was 18,158 square feet. Total food store area at the year end was 19,841,911 square feet as compared to 18,939,624 square feet a year ago.

Drug Stores Expand

Forty-eight drug stores were added during 1962, bringing the total number of drug stores in operation at year end to sixty-six. Thirty-two Superex stores and one Sav-On store were opened. Fifteen stores operating under the name of Gasen Drugs were acquired in the St. Louis area. The sales gain registered during the year by our drug subsidiaries is encouraging. Superex, Gasen and Sav-On stores are being recognized for low prices, high quality and convenience of shopping. The drug store program is moving forward according to plan and expansion will continue at an accelerated pace in 1963.

Financial Position Strong

Cash and marketable securities at the year end were \$59,893,694. Net working capital of \$98,587,737 before provision for retirement of \$20 million long-term debt due June, 1963, exceeded working capital at the end of 1961 by 3%. Funds are ample for current needs. Gromarco Inc. has arranged for the sale of \$10,800,000 of its 5% twenty-five year notes. Proceeds of this financing will be paid over to Kroger in reimbursement for food and drug stores acquired for Gromarco and subsequently leased to Kroger.

Capital expenditures totaled \$36,150,675 in 1962. This was made up of \$14,421,461 for store land and buildings, \$15,633,805 for store equipment and improvements, \$589,216 for distribution centers, \$3,779,004 for transportation equipment, \$1,572,834 for manufacturing facilities and \$154,355 for miscellaneous items.

Depreciation and amortization totaled \$18,932,118. While the company, for tax purposes, will take full advantage of accelerated depreciation and shorter depreciable lives under the new tax guidelines, earnings are reported on the basis of rates used in prior years so as not to distort earnings comparisons. Benefits under the Investment Credit will be spread over the life of the assets in accordance with recommendations of the American Institute of Certified Public Accountants.

People Are Assets

A company is known by its management. During the past year the Kroger team has been strengthened. Mr. Jacob E. Davis became President in March, with Mr. Joseph B. Hall assuming the Chairmanship of the Board. Mr. John L. Strubbe was elected a corporate Vice President. Mr. Thomas E. Dewey, Vice President of the Kansas City Division, was promoted to the position of Vice President-Property in charge of real estate, engineering and construction. Mr. William W. Oliver, Zone Manager, Dallas Division, was appointed Vice President of the Kansas City Division. Mr. William R. Martin, formerly in charge of the Data Processing Department, was appointed Controller. Other important promotions have been made within the organization.

It has been and continues to be the policy of the company to promote from within to the extent that fully qualified people are available. We have gone outside the company to secure special talents and capabilities

for some replacements or additions. Among such appointments were: Mr. Charles E. Jolitz, Vice President-Processed Foods Division, with twenty years of varied responsibilities with one of the largest food processors; Mr. F. Leland Davis, Vice President-Advertising, who has had broad experience with two well-known national advertising agencies; and Mr. Richard E. Karkow, Treasurer, with ten years in commercial and investment banking and corporate financing. Other additions have been made in the fields of procurement, non-food merchandising and discount operations.

Employees Are Owners

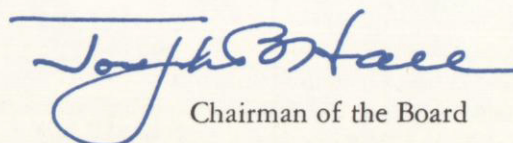
Kroger employees have a major stake in company results through their ownership of Kroger common stock. In total, they own over 900,000 shares. Of this amount 513,427 shares are owned by the Kroger Employees' Savings and Profit Sharing Fund, in which 93% of eligible employees participate. In addition, members of management individually own more than 400,000 shares.

Mr. James M. Phelan, Managing Partner of A. T. Kearney & Company, was elected to the Board of Directors in March to fill the vacancy resulting from the death of Mr. Kearney.

Directors Stanley M. Rowe and David L. Rike will not be candidates for re-election. Their loyal and devoted service over the years will be missed. Mr. Frank M. Grieme, Treasurer, a trusted and respected employee for 47 years, retired in December.

Sales and profits have increased. The aggressive merchandising and operating efficiency programs continue. The management team has been strengthened. Kroger should continue to move forward in 1963.

Respectfully submitted,



Chairman of the Board



President

February 8, 1963



Consolidated Balance Sheet

Assets

	<u>Dec. 29, 1962</u>	<u>Dec. 30, 1961</u>
Cash	\$ 55,925,833	\$ 64,004,006
Marketable securities, at cost.....	3,967,861	201,657
Receivables	21,899,905	10,788,589
Merchandise inventories (Note 1).....	131,832,323	121,395,266
Store and general supplies.....	6,256,596	6,984,748
Prepaid and miscellaneous assets.....	<u>3,802,577</u>	<u>3,605,093</u>
TOTAL CURRENT ASSETS.....	223,685,095	206,979,359
Investment in unconsolidated subsidiaries, at cost (Note 2).....	2,758,337	2,758,337
Land, buildings and equipment, at cost or less.....	229,963,801	218,674,990
Less allowance for depreciation.....	(97,741,607)	(90,073,854)
Leaseholds and leasehold improvements, net.....	<u>42,462,260</u>	<u>41,366,083</u>
TOTAL ASSETS	\$401,127,886	\$379,704,915

December 29, 1962 and December 30, 1961

Liabilities

	<u>Dec. 29, 1962</u>	<u>Dec. 30, 1961</u>
Accounts payable	\$ 67,409,406	\$ 63,461,747
Accrued expenses	38,315,218	33,210,540
Provision for federal taxes.....	18,411,734	13,812,166
Long-term indebtedness (Note 3).....	20,961,000	800,000
TOTAL CURRENT LIABILITIES.....	145,097,358	111,284,453
Long-term indebtedness (Note 3).....	41,655,767	62,634,112
Deferred federal taxes.....	14,895,000	12,245,000
Employees' benefit fund.....	5,175,963	4,656,665
CAPITAL		
Preferred capital stock, par \$100.....	35,300	35,300
Common capital stock, par \$1 (Note 4):		
Authorized: 18,000,000 shares		
Outstanding: 1962, 12,625,178 shares, after deducting 89,557		
shares in treasury at cost, \$2,539,167; 1961, 12,621,498		
shares, after deducting 11,700 shares in treasury at cost,		
\$360,556	57,034,248	58,193,675
Accumulated earnings (Note 3).....	137,234,250	130,655,710
TOTAL CAPITAL	194,303,798	188,884,685
TOTAL LIABILITIES AND CAPITAL.....	\$401,127,886	\$379,704,915

Consolidated Statement of Income

Years Ended December 29, 1962 and December 30, 1961

	1962	1961
Sales	\$1,947,570,909	\$1,842,342,667
Cost of sales.....	1,562,802,640	1,486,958,842
Operating and other expenses.....	<u>340,549,214</u>	<u>320,348,140</u>
Total.....	<u>\$1,903,351,854</u>	<u>\$1,807,306,982</u>
Income before federal taxes on income.....	44,219,055	35,035,685
Federal taxes on income.....	<u>23,795,000</u>	<u>18,083,000</u>
Net income	\$ 20,424,055	\$ 16,952,685

Consolidated Statement of Accumulated Earnings

Year Ended December 29, 1962

Accumulated earnings—December 30, 1961.....		\$ 130,655,710
Net income for 1962.....	\$ 20,424,055	
Dividends	<u>13,845,515</u>	<u>6,578,540</u>
Accumulated earnings—December 29, 1962.....		\$ 137,234,250

Notes to Financial Statements

1. Merchandise inventories are valued at the lower of cost or market, and in part are on the Lifo basis.
2. All wholly-owned subsidiaries have been included in consolidation. The company's equity in the net assets of unconsolidated subsidiaries amounted to \$4,696,954 at December 29, 1962. Dividends of \$52,500 were received from one of the subsidiaries in 1962. The company's equity in earnings of unconsolidated subsidiaries for 1962 amounted to \$157,166.

3. Long-term indebtedness:

3.1% notes maturing October 1, 1971; with annual prepayment of \$700,000....	\$12,600,000
3 1/4% notes maturing June 1, 1963.....	20,000,000
4 3/4% promissory notes, 70% maturing November 5, 1978 and 30% maturing March 2, 1979	10,000,000
4.8% promissory notes maturing October 19, 1981; annual prepayments of \$750,000, without premiums, required beginning October 19, 1966.....	15,000,000
4.5% promissory notes maturing November 13, 1966.....	3,000,000
Other	2,016,767
	62,616,767
Less, amounts due within one year.....	20,961,000
	\$41,655,767

Under certain of the loan agreements, payments of cash dividends are limited. At December 29, 1962, accumulated earnings unrestricted, under the agreement carrying the maximum limitation, amounted to \$24,226,623.

4. Options to officers and executives to purchase 444,914 shares of Kroger common stock were in force at December 30, 1961. Option transactions during the year may be summarized as follows: granted 76,500 shares; exercised 81,537 shares; expired or cancelled 19,647 shares. Options to purchase 420,230 shares were in force at December 29, 1962. Shares available for option at the beginning and close of the year were 183,000 and 107,000, respectively. Options for 120,336 shares were exercisable at December 29, 1962.
5. The company operates principally in leased premises. At December 29, 1962, there were 663 leases expiring subsequent to 1967.

Report of Certified Public Accountants

LYBRAND, ROSS BROS. & MONTGOMERY
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
The Kroger Co.
Cincinnati, Ohio

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary companies as of December 29, 1962, and the related consolidated statements of income and accumulated earnings for the fiscal year (fifty-two weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of income and accumulated earnings present fairly the consolidated financial position of The Kroger Co. and subsidiary companies at December 29, 1962, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Cincinnati, Ohio
February 8, 1963

Lybrand, Ross Bros. & Montgomery



10 Year Statistical Summary

For the Year

	1962	1961	1960	1959
SALES.....	\$1,947,570,909	\$1,842,342,667	\$1,870,289,637	\$1,911,902,467
NET INCOME BEFORE TAXES.....	\$ 44,219,055	\$ 35,035,685	\$ 48,218,029	\$ 54,137,920
NET INCOME.....	\$ 20,424,055	\$ 16,952,685	\$ 23,478,029	\$ 25,516,920
NET INCOME PER SHARE (1).....	\$1.62	\$1.34	\$1.87	\$2.06
DIVIDENDS PER SHARE (2).....	\$1.10	\$1.10	\$1.10	\$.95
RETAINED EARNINGS.....	\$ 6,578,540	\$ 3,094,323	\$ 9,732,605	\$ 13,751,230

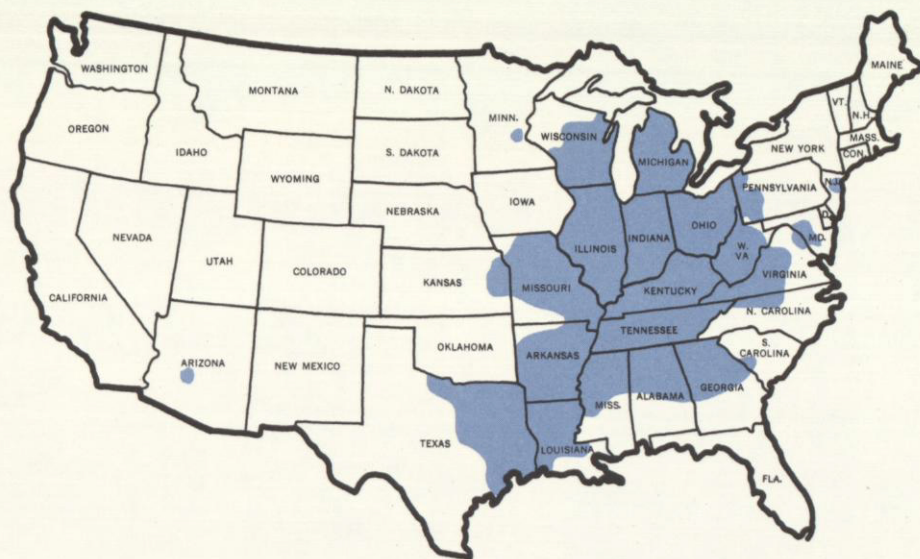
At the Year End

CASH.....	\$ 55,925,833	\$ 64,004,006	\$ 47,354,159	\$ 52,865,583
MERCHANDISE INVENTORIES.....	\$ 131,832,323	\$ 121,395,266	\$ 118,783,384	\$ 118,862,668
NET WORKING CAPITAL.....	\$ 78,587,737	\$ 95,694,906	\$ 77,681,795	\$ 93,854,922
NET FIXED ASSETS.....	\$ 174,684,454	\$ 169,967,219	\$ 164,214,971	\$ 145,970,482
ACCUMULATED EARNINGS.....	\$ 137,234,250	\$ 130,655,710	\$ 127,561,387	\$ 117,828,782
NET WORTH.....	\$ 194,303,798	\$ 188,884,685	\$ 185,077,175	\$ 173,461,086
NET WORTH PER SHARE (1).....	\$15.39	\$14.96	\$14.75	\$13.97
NUMBER OF SHAREOWNERS.....	39,936	36,368	35,663	34,972
NUMBER OF EMPLOYEES.....	37,440	37,308	39,691	40,157
NUMBER OF FOOD STORES.....	1,364	1,354	1,372	1,393
ANNUAL SALES PER FOOD STORE..	\$ 1,433,091	\$ 1,349,702	\$ 1,357,249	\$ 1,357,885
TOTAL FOOD STORE AREA (Sq. Ft.)	19,841,911	18,939,624	18,264,615	17,392,580

(1) Adjusted for 3 for 1 split in 1958 and 4% common stock dividends in 1956 and 1957.

(2) Adjusted for 3 for 1 split in 1958.

(3) Plus 4% stock dividend.



1958	1957	1956	1955	1954	1953
\$1,776,175,147	\$1,674,123,593	\$1,492,552,233	\$1,219,474,812	\$1,108,694,168	\$1,058,608,651
\$ 44,432,930	\$ 41,505,207	\$ 34,515,450	\$ 27,994,575	\$ 27,326,912	\$ 29,309,664
\$ 21,629,930	\$ 20,635,207	\$ 17,071,250	\$ 14,368,292	\$ 14,912,912	\$ 12,528,664
\$1.76	\$1.70	\$1.41	\$1.20	\$1.24	\$1.05
\$.72 ½	\$.66⅔(3)	\$.66⅔(3)	\$.66 ⅔	\$.66 ⅔	\$.66 ⅔
\$ 12,739,263	\$ 12,866,895	\$ 9,641,277	\$ 6,962,639	\$ 7,530,540	\$ 5,168,732
\$ 52,566,148	\$ 42,927,467	\$ 41,518,152	\$ 40,696,076	\$ 34,627,962	\$ 41,792,719
\$ 116,628,932	\$ 111,474,382	\$ 106,274,996	\$ 95,112,775	\$ 84,667,841	\$ 81,196,446
\$ 86,679,309	\$ 73,136,938	\$ 71,945,596	\$ 79,180,095	\$ 67,522,366	\$ 68,707,575
\$ 130,504,808	\$ 108,866,641	\$ 95,528,379	\$ 79,616,588	\$ 59,575,135	\$ 50,451,043
\$ 104,077,552	\$ 91,338,289	\$ 87,656,514	\$ 85,163,541	\$ 78,200,902	\$ 70,670,362
\$ 158,573,593	\$ 143,730,410	\$ 130,159,964	\$ 119,910,406	\$ 112,585,204	\$ 104,646,321
\$12.87	\$11.83	\$10.77	\$ 9.97	\$ 9.39	\$ 8.76
28,514	26,583	26,621	26,596	25,501	25,914
40,500	39,389	36,807	33,705	30,320	29,105
1,428	1,421	1,476	1,587	1,678	1,810
\$ 1,257,914	\$ 1,157,006	\$ 982,589	\$ 740,871	\$ 634,991	\$ 570,678
16,805,232	15,092,774	13,918,774	12,750,326	11,318,339	11,059,602

